

November 23, 2009

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS 25A
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Review of the Covered Electronic Waste Recycling Program Net Cost Reports

The California Integrated Waste Management Board (Board) requested the Department of Finance, Office of State Audits and Evaluations (Finance), to conduct a review of the Covered Electronic Waste (CEW) Recycling Program Net Cost Reports for the period January 1, 2008 through December 31, 2008. This letter summarizes our observations related to the review.

Background

The California Electronic Recycling Act of 2005 is intended to provide free and convenient recycling services for CEW. The program is funded by an \$8 to \$25 fee charged to the customer when the items are originally sold through a retail transaction. The CEW includes the following types of discarded products with a viewable screen size greater than four inches:

- Cathode ray tube devices including televisions and computer monitors
- Liquid crystal display (LCD) desktop monitors
- LCD laptop computers
- LCD televisions
- Plasma televisions
- Personal DVD players

The program includes collectors and recyclers who receive funding from the Board to process the CEW. Specifically, the collectors recover CEW from residences and individuals, commercial businesses, institutions, government, and nonprofit entities. The recyclers dismantle the CEW into materials (plastics, glass, metals, etc.) for final disposal. Dual entities are authorized to recover and recycle CEW.

During 2008, the Board paid recyclers \$0.39 to \$0.48 per pound for cancelling CEW. In turn, the recyclers were required to pay approved collectors a standard recovery rate for all CEW transferred to the recycler. During 2008, this recovery rate ranged from \$0.16 to \$0.20 per pound. However, recyclers often pay more than the standard recovery rate in order to be competitive within the industry.

Scope and Methodology

The review included a validation of the information reported on the Annual CEW Net Cost Report Form 220 and related Forms 220A and 220B for the period January 1, 2008 through December 31, 2008. Additionally, we reviewed compliance with California Code of Regulations Title 14, Division 7, Chapter 8.2, Sections 18860.8, 18860.9, and 18660.10 related to reporting requirements.

To evaluate the reliability of the self-reported data on the Net Cost Reports, we visited 30 collectors and/or recyclers. At each site, we performed the following procedures:

- Interviewed key staff.
- Reviewed a sample of supporting documents and records used to prepare the Net Cost Reports.
- Toured the collector and/or recycler operations.
- Determined whether sales of residuals (salvaged materials) generated from cancelled CEW were supported by financial records and reported in the Net Cost Report.

To compile the results, revenue and cost data were ranked in the following three categories:

- 1—Reported revenue or costs are supported and reasonably accurate.
- 2—Reported revenue or costs are supported but may be high or low.
- 3—Reported revenue or costs cannot be supported because necessary documents are not available.

This review was not considered an audit, the objective of which would be to provide an opinion on the material correctness or compliance of the Net Cost Reports. Therefore, we are not expressing such an opinion. Furthermore, the review included only the data reported on the Net Cost Reports and did not include the collector's or recycler's entire business enterprise.

Results

Based on our review, most of the Net Cost Reports are generally supported, but may not always be reasonably accurate. A detailed ranking for each collector and/or recycler by revenue and expenditure category is provided in Attachments A and B of the report. The table below provides a summary of the average results for collectors and recyclers included in the review:

Average Rating Score—Collectors—Per Attachment A

Form 220	Average Rating
Line 17 Net Cost	1.8
Line 19 Average Cost per Pound	1.7
Form 220 A	
Line 4 Total Revenue for CEW Recovery	2.0
Line 7 Subtotal—Labor Costs	1.7
Line 10 Subtotal—Transportation Costs	1.7
Line 25 Subtotal—Other Costs	1.7
Line 26 Total Costs for CEW Recovery	1.7

On average, the ratings of 30 collectors tested indicate the data provided in the Net Cost Report Form 220 and 220A was supported, but the amounts were not accurate. Data could have been inaccurate by large or small amounts. In general, where collectors' data was inaccurate, it was due to lack of proper accounting procedures, lack of understanding in preparing the form, and in some instances, unsupported financial transactions. For example, many collectors used estimates, which is appropriate per the procedures for completing the form. However, their estimating procedures were often not supported by financial records.

Average Rating Score—Recyclers—Per Attachment B

Form 220	Average Rating
Line 17 Net Cost	1.4
Line 19 Average Cost per Pound	1.3
Form 220 B	
Line 4 Total Recycling Revenue	1.4
Line 7 Subtotal—Labor Costs	1.5
Line 10 Subtotal—Transportation Costs	1.4
Line 25 Subtotal—Other Costs	1.3
Line 26 Total Costs for CEW Recycling	1.4

On average, the rating of 10 recyclers tested indicate the data provided in the Net Cost Report Form 220 and 220B was reasonably accurate for revenues and expenses. Costs were rated lower mainly because there was more estimation involved in arriving at the amounts, such as allocating CEW from Non-CEW business, recycler from collector business, direct from indirect, or general overhead costs. In addition, businesses determined how their company financial statements corresponded with the line items on the form which required grouping some company line items and separating others. Also, the forms were not generally reviewed by other company staff before submittal to the Board. As a result, errors in the estimation of data were not detected by the recyclers.

Ratings for recyclers indicate the financial information reported appeared more accurate than collectors. This could have occurred because recyclers are larger entities and by the nature of their size, they require a more sophisticated accounting system to effectively run their business.

Residuals

Revenues included the sale of residuals with an after market value, such as scrap metal and plastic, recovered from cancelled CEW and reported to the Board. The review results indicate that a total of 6 of 10 recyclers included the sale of residuals in the Net Cost Reports. Three recyclers had under-reported revenue from sales of residuals. One recycler was unable to fully provide supporting records to substantiate its sale of residuals.

An expanded review was performed on three large recyclers to determine whether reported revenues from sales of residuals were supported by financial records and accurately reported in the Net Cost Reports. Two of the three recyclers accurately reported their revenues in the Net Cost Reports. One recycler under-reported revenues by \$1.1 million, 27 percent of the total reported revenues, due to a bookkeeping error.

Observations

Based on the information and data provided by the collectors and recyclers, we identified two areas for consideration by the Board to improve the reliability of the Reports.

Observation 1: More Specific Reporting Guidelines and Training is Needed

Based on our interviews with key staff and review of supporting documentation, the collectors and recyclers could benefit from more specific reporting guidelines and training in the following areas:

- Collectors were unclear on whether they should report revenue above 20 cents or 16 cents per pound. Currently, the form requires that they report revenue above 20 cents per pound. However, because the reimbursement rate changed mid-year, additional instructions are needed. Certain collectors did not report revenue above 20 cents per pound.
- Most collectors and recyclers had challenges in allocating company expenses. Dual entities experienced difficulties when allocating collector versus recycler related expenses. Other challenges related to cost allocation included CEW versus non-CEW items and direct versus indirect labor. Many of these entities were unable to provide supporting documentation on their allocation methodology. Certain collectors and recyclers had difficulty applying company expense line items to the line items in the Net Cost Report.
- Some collectors and recyclers were not sure where or if they should report the cost of purchasing CEW on the Net Cost Report.

The Board could receive more accurate data if the guidelines place less emphasis on estimates and focus more on using actual data and describing appropriate allocation methods. While allocation methods do allow for estimation, if generally accepted accounting methods of allocation are more consistently emphasized, the data should be very close to actual data. Additionally, it would be helpful to compile some allocation best practices so that all the entities could benefit from accounting and reporting strategies that provide the most accurate information.

Observation 2: Related Party Transactions May Increase the Risk of Inaccurate Reporting

During our review, we identified several related parties selling and purchasing CEW and residuals such as a collector and recycler owned and operated separately by family members. Related party transactions are not considered arms-length and may result in lower reported revenues from selling residuals at less than fair market value, or inflated costs. Although we did not identify any instances where related party transactions resulted in misstated reports, the Board should consider performing additional audit procedures to address this risk.

In accordance with Finance's policy of increased transparency, this report will be placed on our website.

If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or John Rogers, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Rubia Packard, Chief Deputy Director, California Integrated Waste Management Board
Mr. Tom Estes, Deputy Director, California Integrated Waste Management Board
Mr. Howard Levenson, Program Director, Sustainability Program, California Integrated Waste Management Board
Ms. Shirley Willd-Wagner, Division Chief, Financial Assistance Division, California Integrated Waste Management Board
Ms. Susan Villa, Branch Manager, Financial Assistance Division, California Integrated Waste Management Board
Mr. Jeff Hunts, Manager, Electronic Waste Recycling Program, California Integrated Waste Management Board
Mr. Brian Kono, Audit Manager, Audit and Evaluation Unit, California Integrated Waste Management Board

Review of Net Cost Reports
Summary of Rankings
Collectors

Covered Electronic Waste (CEW) ID Number	100024	100035	108615	107283	100172	100194	100467	101641	104393	106863	107192	102788	100365	105485	102106	100547
Type	Collector	Dual	Collector	Dual	Collector	Dual	Collector	Collector	Dual	Collector	Dual	Dual	Dual	Collector	Collector	Collector
Company Name	A & M Metals, Inc.	Advanced Computer Recycling, Inc.	Alianza Recycling Group, Inc.	AMI Southern California Inc. DBA ASL Recycling	Butte Regional HHW Facility	California Electronic Asset Recovery (CEAR)	City of Folsom Hazmat Division	Computers for Classrooms Inc.	Danny E-Waste	Danny Recycling Center, Concord	Direct Computer Disposal (Los Angeles)	Electronic Recyclers (ERI, LLC)	E-Recycling of California, Hayward	E-Waste Disposal, Inc.	Gold'n West Surplus, Inc.	Goodwill Industries of Long Beach
Form 220																
L14 Handle Covered Electronic Waste (CEW) Y/N	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
L15 Total Revenues - CEW Recovery or Recycling	3.0	1.0	2.5	N/A	2	1.0	1.0	N/A	3.0	2.0	1.0	N/A	1.0	3.0	2.0	2.0
L16 Total Costs - CEW Recovery or Recycling Amount	3.0	1.4	2.2	1.0	1.0	1.0	1.3	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	1.2
L17 Net Cost	3.0	1.2	2.4	1.0	1.5	1.0	1.2	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	1.6
L18 Total Pounds of CEW Recovered or Recycled	3.0	1.0	1.0	1.0	1.0	1.0	1.0	2.0	3.0	2.0	1.0	1.0	1.0	3.0	1.0	1.0
L19 Average Cost Per lb.	3.0	1.1	1.7	1.0	1.3	1.0	1.1	2.0	3.0	2.0	1.0	1.0	1.0	3.0	1.5	1.3
Form 220A																
L1 Revenue from Recyclers Over and Above the Standard Payment of 20 Cents Per Pound Required by the Act	3.0	1.0	2.0	N/A	2.0	N/A	1.0	N/A	3.0	2.0	N/A	N/A	N/A	3.0	2.0	2.0
L2 Revenue Received for Recovery Services, Such as Fees Charged to CEW Generators	N/A	1.0	3.0	N/A	N/A	1.0	N/A	N/A	N/A	N/A	1.0	N/A	1.0	3.0	N/A	N/A
L3 Other Allowable Revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
L4 Total Revenue for CEW Recovery	3.0	1.0	2.5	N/A	2.0	1.0	1.0	N/A	3.0	2.0	1.0	N/A	1.0	3.0	2.0	2.0
L5 Direct Labor	3.0	2.0	3.0	1.0	1.0	1.0	1.0	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	2.0
L6 Indirect Labor Allocated to CEW Handling	3.0	2.0	2.0	1.0	N/A	1.0	N/A	2.0	N/A	N/A	N/A	1.0	1.0	3.0	N/A	1.0
L7 Subtotal—Labor Costs	3.0	2.0	2.5	1.0	1.0	1.0	1.0	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	1.5
L8 Transportation Related to Recovery of CEW from Generators	3.0	1.0	2.0	1.0	N/A	1.0	2.0	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	1.0
L9 Transportation from Collector Facility to Recycler Facility	N/A	1.0	2.0	1.0	1.0	N/A	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	2.0	N/A
L10 Subtotal—Transportation Costs	3.0	1.0	2.0	1.0	1.0	1.0	2.0	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	1.0
L11 Advertising, Marketing, Promotion, and Public Education	3.0	1.0	2.0	1.0	N/A	1.0	1.0	2.0	3.0	2.0	N/A	1.0	1.0	3.0	2.0	2.0
L12 Processing and Disposal	3.0	N/A	N/A	N/A	N/A	N/A	N/A	3.0	N/A	N/A	N/A	1.0	N/A	N/A	3.0	1.0
L13 Supplies (only supplies used in collection activities)	3.0	1.0	2.0	1.0	1.0	1.0	1.0	2.0	3.0	2.0	N/A	1.0	N/A	3.0	2.0	1.0
L14 Depreciation (excluding transportation)	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.0
L15 Insurance (excluding transportation-related)	3.0	1.0	2.0	N/A	1.0	1.0	1.0	2.0	3.0	2.0	N/A	1.0	N/A	3.0	2.0	1.0
L16 Debt Service (principal and interest payments, excluding transportation-related)	N/A	N/A	2.0	N/A	N/A	1.0	N/A	N/A	N/A	N/A	N/A	1.0	N/A	3.0	N/A	N/A
L17 Maintenance (excluding transportation-related)	3.0	2.0	2.0	1.0	N/A	1.0	N/A	2.0	N/A	2.0	N/A	1.0	N/A	3.0	2.0	1.0
L18 Fuel (excluding transportation-related)	3.0	1.0	2.0	1.0	N/A	1.0	N/A	N/A	3.0	2.0	N/A	N/A	N/A	3.0	N/A	N/A
L19 Property Tax	N/A	N/A	N/A	1.0	N/A	1.0	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	N/A	1.0
L20 Utilities	3.0	1.0	2.0	N/A	1.0	1.0	1.0	2.0	3.0	2.0	N/A	1.0	N/A	3.0	2.0	1.0
L21 Facilities and Equipment Rent or Lease	3.0	1.0	2.0	1.0	1.0	1.0	1.0	2.0	3.0	2.0	N/A	1.0	N/A	3.0	2.0	1.0
L22 Security	3.0	1.0	2.0	1.0	N/A	1.0	N/A	2.0	N/A	N/A	N/A	N/A	N/A	3.0	2.0	1.0
L23 General Overhead	3.0	1.0	2.0	N/A	1.0	1.0	N/A	2.0	N/A	N/A	N/A	1.0	N/A	3.0	N/A	2.0
L24 Additional Cost	N/A	N/A	2.0	1.0	N/A	N/A	N/A	N/A	3.0	2.0	N/A	N/A	N/A	N/A	1.0	N/A
L25 Subtotal Other Costs	3.0	1.1	2.0	1.0	1.0	1.0	1.0	2.1	3.0	2.0	N/A	1.0	1.0	3.0	2.0	1.2
L26 Total Costs for CEW Recovery	3.0	1.4	2.2	1.0	1.0	1.0	1.3	2.0	3.0	2.0	1.0	1.0	1.0	3.0	2.0	1.2
L27 Capital Expenditures	N/A	1.0	N/A	N/A	N/A	2.0	N/A	N/A	N/A	2.0	N/A	N/A	N/A	N/A	N/A	N/A

Rating Definitions:
1=Supported & Reasonably Accurate
2=Supported high/low
3=Unsupported & Undocumented
N/A—Entity reported zero in this category.

Review of Net Cost Reports
Summary of Rankings
Collectors

Covered Electronic Waste (CEW) ID Number	101958	100627	102208	105281	105086	107603	100888	105623	107157	102447	106497	106178	101162	103073	Average Rating for All Collectors
Type	Collector	Collector	Dual	Dual	Collector	Collector	Collector	Collector	Collector	Collector	Collector	Collector	Dual	Dual	
Company Name	Goodwill Industries of Silicon Valley	HOPE Services	KYO Computer, Inc.	Monitor and CRT Recyclers of California	Orange E-Waste	Recycletech, LLC	Renew Computers	S & D Recycling	SA Recycling, LLC	SF Recycling & Disposal, Inc.	Sunshine Pad & Foam	Tri-Valley Recycling	Waste Tire Products (WTP) Research and Development	Yuba Sutter Disposal, Inc.	
Form 220															
L14 Handle Covered Electronic Waste (CEW) Y/N	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
L15 Total Revenues - CEW Recovery or Recycling	2.0	2.0	3.0	N/A	2.0	3.0	1.5	2.0	2.0	3.0	2.0	1.0	N/A	1.0	2.0
L16 Total Costs - CEW Recovery or Recycling Amount	2.2	2.0	1.8	2.0	2.6	1.2	1.2	2.0	2.5	1.0	2.0	2.0	1.0	1.0	1.7
L17 Net Cost	2.1	2.0	2.4	2.0	2.3	2.1	1.4	2.0	2.3	2.0	2.0	1.5	1.0	1.0	1.8
L18 Total Pounds of CEW Recovered or Recycled	2.0	2.0	1.0	1.0	2.0	1.0	1.0	2.0	3.0	1.0	2.0	1.0	1.0	1.0	1.5
L19 Average Cost Per lb.	2.1	2.0	1.7	1.5	2.1	1.6	1.2	2.0	2.7	1.5	2.0	1.3	1.0	1.0	1.7
Form 220A															
L1 Revenue from Recyclers Over and Above the Standard Payment of 20 Cents Per Pound Required by the Act	2.0	2.0	3.0	N/A	2.0	3.0	2.0	2.0	2.0	3.0	2.0	1.0	N/A	1.0	2.1
L2 Revenue Received for Recovery Services, Such as Fees Charged to CEW Generators	N/A	N/A	N/A	N/A	N/A	N/A	1.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.6
L3 Other Allowable Revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
L4 Total Revenue for CEW Recovery	2.0	2.0	3.0	N/A	2.0	3.0	1.5	2.0	2.0	3.0	2.0	1.0	N/A	1.0	2.0
L5 Direct Labor	2.0	2.0	2.0	N/A	3.0	1.0	1.0	2.0	2.0	1.0	2.0	1.0	1.0	1.0	1.7
L6 Indirect Labor Allocated to CEW Handling	3.0	2.0	2.0	N/A	N/A	1.0	1.0	N/A	N/A	1.0	N/A	1.0	N/A	1.0	1.6
L7 Subtotal—Labor Costs	2.5	2.0	2.0	N/A	3.0	1.0	1.0	2.0	2.0	1.0	2.0	1.0	1.0	1.0	1.7
L8 Transportation Related to Recovery of CEW from Generators	2.0	2.0	2.0	1.0	2.0	1.0	1.0	N/A	N/A	1.0	2.0	2.0	1.0	N/A	1.7
L9 Transportation from Collector Facility to Recycler Facility	N/A	N/A	1.0	N/A	2.0	1.0	N/A	N/A	3.0	N/A	N/A	N/A	N/A	N/A	1.5
L10 Subtotal—Transportation Costs	2.0	2.0	1.5	1.0	2.0	1.0	1.0	N/A	3.0	1.0	2.0	2.0	1.0	N/A	1.7
L11 Advertising, Marketing, Promotion, and Public Education	2.0	2.0	2.0	N/A	2.0	2.0	1.0	2.0	N/A	N/A	2.0	1.0	1.0	1.0	1.7
L12 Processing and Disposal	N/A	N/A	2.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.2
L13 Supplies (only supplies used in collection activities)	N/A	2.0	2.0	N/A	N/A	2.0	2.0	2.0	2.0	1.0	2.0	1.0	1.0	N/A	1.7
L14 Depreciation (excluding transportation)	N/A	2.0	2.0	N/A	N/A	1.0	N/A	N/A	3.0	1.0	N/A	N/A	N/A	N/A	1.6
L15 Insurance (excluding transportation-related)	N/A	N/A	2.0	N/A	N/A	1.0	2.0	2.0	3.0	1.0	2.0	1.0	N/A	1.0	1.7
L16 Debt Service (principal and interest payments, excluding transportation-related)	N/A	2.0	2.0	N/A	N/A	3.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.0
L17 Maintenance (excluding transportation-related)	N/A	N/A	2.0	N/A	N/A	1.0	2.0	2.0	3.0	1.0	N/A	N/A	N/A	1.0	1.8
L18 Fuel (excluding transportation-related)	N/A	2.0	2.0	N/A	N/A	1.0	N/A	2.0	2.0	1.0	2.0	1.0	N/A	1.0	1.8
L19 Property Tax	N/A	N/A	2.0	N/A	N/A	N/A	N/A	2.0	N/A	1.0	N/A	N/A	N/A	1.0	1.3
L20 Utilities	N/A	2.0	2.0	N/A	N/A	1.0	1.0	2.0	3.0	1.0	2.0	1.0	N/A	1.0	1.7
L21 Facilities and Equipment Rent or Lease	N/A	2.0	2.0	N/A	3.0	2.0	2.0	3.0	N/A	1.0	2.0	2.0	N/A	1.0	1.8
L22 Security	N/A	N/A	2.0	N/A	N/A	N/A	N/A	3.0	N/A	N/A	N/A	2.0	N/A	N/A	1.9
L23 General Overhead	N/A	2.0	2.0	N/A	3.0	2.0	N/A	N/A	2.0	1.0	N/A	N/A	N/A	1.0	1.8
L24 Additional Cost	N/A	2.0	1.0	1.0	N/A	3.0	N/A	2.0	3.0	N/A	2.0	N/A	N/A	N/A	1.9
L25 Subtotal Other Costs	2.0	2.0	1.9	1.0	2.7	1.7	1.7	2.2	2.6	1.0	2.0	2.0	1.0	1.0	1.7
L26 Total Costs for CEW Recovery	2.2	2.0	1.8	1.0	2.6	1.2	1.2	2.1	2.5	1.0	2.0	2.0	1.0	1.0	1.7
L27 Capital Expenditures	N/A	N/A	2.0	N/A	N/A	1.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.6

Rating Definitions:
1=Supported & Reasonably Accurate
2=Supported high/low
3=Unsupported & Undocumented
N/A—Entity reported zero in this category.

Review of Net Cost Reports
Summary of Rankings
Recyclers

Covered Electronic Waste (CEW) ID Number	100035	107283	100194	104393	107192	102788	100365	102208	105281	101162	Average Rating for All Recyclers
Type	Dual	Dual	Dual	Dual	Dual	Dual	Dual	Dual	Dual	Dual	
Company	Advanced Computer Recycling, Inc.	AMI Southern California Inc. DBA ASL Recycling Carson	California Electronic Asset Recovery (CEAR)	Danny E-Waste	Direct Computer Disposal (Los Angeles)	Electronic Recyclers (ERA, LLC)	E-Recycling of California, Hayward Facility	KYO Computer, Inc.	Monitor and CRT Recyclers of California	Waste Tire Products (WTP) Research and Development	
Form 220											
L14 Handle Covered Electronic Waste (CEW) Y/N	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
L15 Total Revenues - CEW Recovery or Recycling	2.0	1.0	1.0	2.0	1.0	2.0	1.0	2.0	1.0	1.0	1.4
L16 Total Costs - CEW Recovery or Recycling	1.4	1.0	1.0	2.1	1.2	1.4	1.1	2.3	1.4	1.0	1.4
L17 Net Cost	1.7	1.0	1.0	2.1	1.1	1.7	1.1	2.2	1.2	1.0	1.4
L18 Total Pounds of CEW Recovered or Recycled	1.0	1.0	1.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1
L19 Average Cost Per lb.	1.4	1.0	1.0	2.1	1.1	1.4	1.1	1.6	1.1	1.0	1.3
Form 220B											
L1 Revenue From Sale of Recycled CEW Components	2.0	1.0	1.0	2.0	1.0	2.0	1.0	2.0	1.0	1.0	1.4
L2 Other Allowable Revenue	N/A	N/A	1.0	N/A	N/A	N/A	N/A	N/A	1.0	N/A	1.0
L3 Blank Line on Form 220B											
L4 Total Recycling Revenue	2.0	1.0	1.0	2.0	1.0	2.0	1.0	2.0	1.0	1.0	1.4
L5 Direct Labor	2.0	1.0	1.0	2.0	1.0	1.0	1.0	2.0	2.0	1.0	1.4
L6 Indirect Labor Allocated to CEW Handling	2.0	1.0	1.0	N/A	2.0	1.0	1.0	2.0	N/A	N/A	1.4
L7 Subtotal—Labor Costs (Add lines 5 and 6)	2.0	1.0	1.0	2.0	1.5	1.0	1.0	2.0	2.0	1.0	1.5
L8 Transportation from Recycling Facility to Market/Disposal Facility	1.0	1.0	1.0	2.0	1.0	2.0	1.0	3.0	1.0	1.0	1.4
L9 Other Allowable Transportation	N/A	N/A	1.0	N/A	1.0	2.0	1.0	N/A	1.0	N/A	1.2
L10 Subtotal—Transportation Costs	1.0	1.0	1.0	2.0	1.0	2.0	1.0	3.0	1.0	1.0	1.4
L11 Advertising, Marketing, Promotion, and Public Education	1.0	1.0	1.0	2.0	1.0	1.0	1.0	2.0	2.0	N/A	1.3
L12 Processing and Disposal	1.0	2.0	1.0	1.0	1.0	1.0	1.0	2.0	1.0	1.0	1.2
L13 Supplies (only supplies used in recycling activities)	1.0	1.0	1.0	2.0	1.0	1.0	1.0	2.0	1.0	1.0	1.2
L14 Depreciation (excluding transportation)	N/A	1.0	1.0	2.0	2.0	1.0	2.0	2.0	N/A	N/A	1.6
L15 Insurance (excluding transportation-related)	1.0	1.0	1.0	3.0	1.0	1.0	1.0	2.0	1.0	1.0	1.3
L16 Debt Service (principal and interest payments, excluding transportation-related)	N/A	1.0	1.0	N/A	1.0	1.0	1.0	2.0	N/A	N/A	1.2
L17 Fuel (excluding transportation-related)	1.0	1.0	1.0	3.0	1.0	N/A	N/A	2.0	2.0	1.0	1.5
L18 Maintenance (excluding transportation-related)	2.0	1.0	1.0	3.0	1.0	1.0	N/A	2.0	1.0	1.0	1.4
L19 Property Tax	N/A	1.0	1.0	N/A	N/A	1.0	N/A	2.0	N/A	1.0	1.2
L20 Utilities	1.0	1.0	1.0	3.0	1.0	1.0	1.0	2.0	1.0	1.0	1.3
L21 Facilities and Equipment Rent or Lease	2.0	1.0	1.0	2.0	1.0	N/A	2.0	2.0	1.0	1.0	1.4
L22 Security	1.0	1.0	1.0	N/A	1.0	N/A	N/A	2.0	1.0	N/A	1.2
L23 General Overhead	1.0	N/A	1.0	N/A	1.0	2.0	1.0	2.0	1.0	N/A	1.3
L24 Additional Cost	1.0	1.0	N/A	2.0	1.0	N/A	N/A	2.0	1.0	N/A	1.3
L25 Subtotal Other Costs	1.2	1.1	1.0	2.3	1.1	1.1	1.2	2.0	1.2	1.0	1.3
L26 Total Costs for CEW Recycling	1.4	1.0	1.0	2.1	1.2	1.4	1.1	2.3	1.4	1.0	1.4
27 Capital Expenditures	1.0	N/A	1.0	2.0	3.0	1.0	N/A	2.0	2.0	N/A	1.7

Rating Definitions:
1=Supported & Reasonably Accurate
2=Supported high/low
3=Unsupported & Undocumented
N/A—Entity reported zero in this category.



LINDA S. ADAMS
SECRETARY FOR ENVIRONMENTAL
PROTECTION

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD



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November 17, 2009

David Botelho, CPA
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Re: Review of the Covered Electronic Waste Recycling Program Net Cost Reports

Dear Mr. Botelho:

As Executive Director of the California Integrated Waste Management Board (CIWMB), I appreciate the opportunity to respond to the Department of Finance (DOF) Management Letter regarding the recent review of Net Cost Reports submitted by participants in the Covered Electronic Waste Recycling Program. The CIWMB accepts the conclusions of the review summarized in the Management Letter, and takes the observations seriously.

Covered electronic waste recovery and recycling cost data received by the CIWMB through the Net Cost Reports is a key component of the consideration undertaken by the CIWMB when determining whether payment rates to approved collectors and recyclers should be adjusted. It is vital that this information be as accurate as feasible so that payment rates support the collection and recycling of covered electronic waste as intended by the Electronic Waste Recycling Act of 2003, while at the same time not presenting an excessive burden on the fee payers who fund the program.

The CIWMB had requested that DOF assess the validity of cost and revenue data contained in the Net Cost Reports by evaluating whether the data was supported by available documentation maintained by program participants. This is the second year that DOF has performed this service. An evaluation performed in 2008, which assessed reports that covered collection and recycling operations conducted in 2007, determined that the examined reports were reasonably accurate, albeit often imperfect. The impression that those reports were reasonably accurate allowed the CIWMB to adjust recovery and recycling payment rates, pursuant to statute, with confidence.

This year's evaluation, which reviewed cost data submitted by a selected subset of program participants reflecting activities conducted in 2008, shows that the accuracy of information most recently submitted is less than optimal. Although cost data submitted by recyclers tended to exhibit a higher degree of accuracy than that of collectors, both groups' reports appear to be less reliably supported by cost and revenue documentation examined by DOF than in the previous year. This finding raises concern not only because it casts doubt on whether participants are complying with applicable regulations regarding report preparation, but also because accurate cost data is vital to the CIWMB



statutorily required review of the recovery and recycling payment rates. With 2010 being the next opportunity for such a review, the next cycle of Net Cost Reports must be of the highest quality feasible.

With regard to Observation 1 (More Specific Reporting Guidelines and Training is Needed), the CIWMB will review and revise report preparation guidance and forms to clarify what information is required, and where to capture it. Although cost allocations and estimates are allowable out of necessity, due to the fact that most program participants operate diverse enterprises, the CIWMB will also stress that generally accepted accounting methods must be used in report preparation. The act of submitting a fraudulent Net Cost Report is considered a prohibited activity, potentially resulting in expulsion from the program and possibly additional enforcement actions. Knowingly submitting incorrect or false cost data would be considered fraudulent.

With regard to Observation 2 (Related Party Transactions May Increase the Risk of Inaccurate Reporting), the CIWMB is aware of the vulnerabilities presented by the activities of "dual entities" (a single organization operating as both a collector and recycler), and the commercial cooperation of related enterprises. As part of the CIWMB's Strategic Directive 10 (Fiduciary Responsibility), the CIWMB's audit unit has been analyzing the operational compliance of select participants within the covered electronic waste recycling program. Initial audits focused on collectors, but are now focusing on both recyclers and collectors, and the business relationships between these operations. The CIWMB will incorporate into its audit scheme an assessment of the potential for collusive activities when collectors and recyclers share a common organizational foundation. It should be noted that such mutually beneficial manipulations of costs and/or pricing are possible even when the transacting parties have no formal organizational ties.

As the CIWMB looks ahead to the next cycle of Net Cost Reports, the insights provided by DOF's review will serve to focus our attention on what adjustments can be made to achieve the highest degree of accuracy feasible given the resources allocated to administering the program. The ongoing workload of the payment system has consumed all available program staffing and any redirection to address matters such as reporting guidance, or more fundamental issues such as regulatory revisions, may come at the expense of timely review of payment claims and cause hardship on participating recyclers. However the CIWMB sees the imperative of securing quality data upon which to consider any program adjustments and will take the necessary steps toward that goal.

We greatly appreciate DOF's ongoing assistance in evaluating the validity of the Net Cost Report data. If you have any questions, please feel free to contact me directly at 341-6544, or Jeff Hunts, Manager of the E-Waste program, at 341-6603.

Sincerely,

Original signed by:

Mark Leary
Executive Director
California Integrated Waste Management Board